

Update from the Chairman: Board size and composition

Kia ora

As part of earlier governance and representation reviews a commitment was made to review our Board size and composition in 2024.

Since the Co-op's formation it has been envisaged that the Board size would be rationalised over time. With the Capital Structure review, asset divestment programme and long term strategy work largely behind us, the Board believes it is the right time to review its size and composition.

Today I'm sharing our initial thinking from that review, which we want to discuss with you between now and this year's Annual Meeting – at which we plan to seek your endorsement via a vote.

Top line, we believe the Board priorities for the coming years could be more efficiently delivered by a smaller Board.

Our current thinking is to reduce the number of directors on the Board from 11 down to 9. The current balance between Farmer Elected and Appointed Directors would be maintained, with a composition of 6 Farmer Elected Directors and 3 Appointed Directors. As is the case today, the Chairman would still be selected from within the pool of Farmer Elected Directors.

Considerations

My personal experience leading or being part of leadership groups is that in smaller groups people are more engaged and able to share their perspectives in a more meaningful way. Smaller groups encourage greater sharing of dissenting ideas and opinions – which is a good thing – and are proven to support faster, robust decision making.

Having now been part of the Co-op's Board for 5 years, the last 3 as Chair, I'm confident that reducing the size of our Board will improve the dynamics within the group, encouraging greater participation from directors, and maintaining access to the necessary skills and experience to govern the Co-op into the future.

When thinking about the right size of the Board, that balance is important. We want to increase efficiency and avoid 'group think' whilst retaining an appropriate level of skills and capabilities, as defined by our board skills matrix.

The New Zealand Institute of Directors recommends, as a general rule, a board size of between 6-8 directors in the case of medium to large sized companies in New Zealand. Fonterra's global scale makes us an outlier.

As well as the size of the organisation, optimal board size is also informed by the associated workload requirements. The changes in our Governance framework, with changes to our Board sub-committees and no requirement for an Independent Director to chair the Milk Price Panel also support the concept of a smaller Board.

Through the previous Governance and Representation reviews it was clear that a strong Farmer Director majority on the Board was important to farmers, alongside the other elements of farmer control.

Our view is that the proposed reduction to nine Directors and 6:3 composition will strike the right balance between a strong and diverse level of perspectives, skills and experiences and

manageable workloads while providing directors the opportunity to participate in discussions and decisions to the best of their abilities.

The proposed 6:3 split between Farmer Elected and Appointed Directors also protects the Farmer Elected Director majority principle.

Next steps

The Board is now consulting with the Co-operative Council on this proposal to seek their feedback, in parallel with seeking feedback from farmers.

We are mindful that it is a busy time on farm and we are all under pressure within our individual businesses. Rather than create more meetings, we look forward to discussing the proposal with you during the upcoming September roadshows, which follow the Annual Results.

In the meantime, if you have any ideas or feedback, please feel welcome to reply to this email, or speak to your Co-operative Councillor.

Peter